MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BEI2084 – INTERNATIONAL ECONOMICS

(All sections / Groups)

26 OCTOBER 2018
9.00 A.M. – 11.00 A.M.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 4 Questions only.
2. Attempt **ALL FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given .
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) "Opening up free trade does hurt people in import-competing industries in the short run. But in the long run, when people and resources can move between industries, everybody ends up gaining from free trade." Do you agree or disagree? Comment.

(5 marks)

(b) Malaysian government has imposed import tariffs on imported photocopy machine from China to protect their local industry from foreign competition. Given are the two equations of domestic demand and supply of photocopy machine in Malaysia:

Demand: $Qd = 135 - 5P$
Supply: $Qs = 15 + 15P$

where Q denotes quantity (in thousand units) and P denotes price (in RM thousand per unit).

i) If the world price is RM5 thousands per unit and import tariff of 10% is imposed, determine the change in imports of photocopy machine after tariff?

(8 marks)

ii) What is the effect of this import tariff on Malaysian consumers and producers? Demonstrate and explain if this restricted trade is better than without trade?

(10 marks)

iii) By imposing import tariff on photocopy machine imports from China, the government earned tariff revenue. Determine the amount of the tariff revenue.

(2 marks)

(Total: 25 marks)

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QUESTION 2

(a) Strong Asian Intraregional trade and investment improve economic resilience

SINGAPORE (25 October 2017) – Growing trade and investment linkages in Asia and the Pacific help improve the region's economic resilience to uncertainties in the global economic and trade policy environment, according to a new Asian Development Bank (ADB) report.
In 2016, Asia's intraregional trade share – measures by value – rose to 57.3%, a record high, up from an average of 55.9% from 2010 to 2015.

Source: Asian Development Bank, 25 October 2017.

Does intraregional trade contradict with the theory of comparative advantage? Explain.

(9 marks)

(b) Given table shows the input cost shares in chocolate and forklift industries for Japan.

	For each Japanese Yen (¥ thousand) of		
	Chocolate Output	**Forklift Output**	**Overall National Income**
Total labour input	¥170	¥169	¥170
Total land input	¥12	¥6	¥12
Total capital input	¥18	¥25	¥18
	¥200	¥200	¥200

Suppose that a change in demand conditions in the rest of the world raises the price of chocolates relative to forklifts, so producers in Japan try to expand production of chocolates in order to export more chocolates.

(i) If all factors are immobile between the chocolate and forklift sectors, analyse who will gain and lose from this change.

(8 marks)

(ii) If all factors are freely mobile between the chocolate and forklift sectors, analyse who will gain and lose from this change.

(8 marks)

(Total: 25 marks)

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QUESTION 3

(a) A weak dollar hurts more Americans than it helps

Back in the mid-1990s, following a period of extreme dollar weakness, then-U.S. Treasury Secretary Robert Rubin argued that a strong dollar was in America's interest. It was a philosophy that was taken at face value by investors, and adhered to for decades, more or less, for good reasons. A strong currency keeps a lid on inflation, which in turn helps keep interest rates low.

Source: http://www.cnbc.com, 26 January 2018.

i) Why a weaker dollar hurts Americans?

(2 marks)

ii) "Weak" currencies are usually associated the high inflation and "strong" currencies are usually associated with low inflation. Discuss why this association exist.

(3 marks)

(b) Assuming other factors remain unchanged, sketch a graph to explain how the following factors affect the Thai baht exchange rate under a floating exchange rate system in Thailand

i) The Singapore economy slides into a recession.

ii) Tariff and quotas reduced by Thailand on imports from China into the country.

iii) Thailand encounters severe inflation while prices are stable in Malaysia.

iv) The Thai economy slides into a recession, -0.5% growth rate in Q4 but Singapore economy remain resilient.

(20 marks)

(Total: 25 marks)

QUESTION 4

"Global trade contributes to accelerate both in volumes and complexity, with the WTO's most recent trade forecast revised to show improved growth in world merchandised trade volume. Just look at the numbers from Alibaba and their most recent Singles Day, where products were purchased from 192 countries. The number of tons shipped by ocean containers has multiplied many times over in recent years – almost 17 times – from 102 million tons in 1980 to 1720 million tons in 2016."

Identify and elaborate **FIVE** beneficial effects that international trade can have on economic development.

(Total: 25 marks)

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